

600

Income Security

Budget function 600 covers federal income-security programs that provide cash or in-kind benefits to individuals. Some of those benefits (such as food stamps, Supplemental Security Income, Temporary Assistance for Needy Families, and the earned income tax credit) are means-tested, whereas others (such as unemployment compensation and Civil Service Retirement and Disability payments) do not depend on a person's income or assets. CBO estimates that in 2000, federal outlays under function 600 will total \$248.9 billion, including \$42.2 billion in discretionary outlays. Early in the past decade, discretionary spending in function 600 grew significantly; since then, annual growth has been much slower.

Federal Spending, Fiscal Years 1990-2000 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimate 2000
Budget Authority (Discretionary)	18.9	29.6	30.4	31.9	33.1	27.5	27.8	22.7	29.7	32.7	29.7
Outlays											
Discretionary	23.5	25.8	28.2	31.3	35.7	39.2	38.0	39.4	40.9	40.0	42.2
Mandatory	<u>123.6</u>	<u>144.6</u>	<u>168.8</u>	<u>175.9</u>	<u>178.4</u>	<u>181.3</u>	<u>188.0</u>	<u>191.5</u>	<u>192.3</u>	<u>197.8</u>	<u>206.7</u>
Total	147.1	170.3	197.0	207.3	214.1	220.5	226.0	230.9	233.2	237.7	248.9
Memorandum:											
Annual Percentage Change in Discretionary Outlays		9.5	9.6	11.1	13.9	9.8	-3.1	3.8	3.7	-2.3	5.6

600-01 End Trade Adjustment Assistance

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2001	250	155
2002	335	320
2003	320	320
2004	320	320
2005	330	330
2001-2005	1,555	1,445
2001-2010	3,305	3,195
SPENDING CATEGORY:		
Mandatory		

The Trade Adjustment Assistance (TAA) program offers income-replacement benefits, training, and related services to workers who are unemployed as a result of import competition. To obtain assistance, such workers must petition the Secretary of Labor for certification and then meet other eligibility requirements. Cash benefits are available to certified workers receiving training but only after their unemployment insurance benefits are exhausted.

Ending the TAA program would reduce federal outlays by about \$150 million in 2001 and by \$3.2 billion during the 2001-2010 period. Affected workers could apply for benefits under the Workforce Investment Act of 1998 (WIA), which authorizes a broad range of employment and training services for displaced workers regardless of the cause of their job loss. (Because funding for WIA is limited, however, TAA cash benefits alone could be eliminated, and the remaining TAA funds for training and related services could be shifted to WIA. Doing so would reduce the total savings by about one-quarter during the 10-year period.)

The rationale for this option is to secure under federal programs more equivalent treatment of workers who are permanently displaced as a result of changing economic conditions. Since WIA provides cash benefits only under limited circumstances, workers who lose jobs because of foreign competition are now treated more generously than workers who are displaced for other reasons.

Eliminating TAA cash benefits would, however, cause economic hardship for some of the long-term unemployed who would have received them. In addition, TAA now compensates some of the workers adversely affected by changes in trade policy. Some people argue, therefore, that eliminating TAA benefits could lessen political support for free trade, which benefits the overall economy.

600-02 End the Expansion of Programs for Building New Housing Units for Elderly and Disabled People

Savings
(Millions of dollars)
Budget
Authority Outlays

Relative to WODI

2001	811	0
2002	811	10
2003	811	115
2004	811	290
2005	811	515
2001-2005	4,055	930
2001-2010	8,110	4,695

Relative to WIDI

2001	825	0
2002	840	10
2003	850	115
2004	865	300
2005	880	530
2001-2005	4,265	955
2001-2010	8,900	4,990

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

370-11

Since the early 1980s, federal activities to provide rental subsidies for low-income people have shifted sharply from constructing low-income housing to using less costly existing housing subsidized with vouchers and certificates. Two construction programs under which new commitments are still being made are the Section 202 and Section 811 programs for elderly and disabled people, respectively. For 2000, \$811 million was appropriated to construct up to 9,400 new units and subsidize their operating costs. (The appropriation allows as much as \$50 million of those funds to be used for vouchers for disabled people.)

Eliminating funding for additional new units under those programs would reduce outlays by \$4.7 billion over the 2001-2010 period. Initially, savings in outlays would be substantially smaller than savings in budget authority because of the long lags involved in building new projects and thus in spending authorized funds.

Proponents of this option see little need to subsidize any new construction. The overwhelming housing problem today, they argue, is not a shortage of rental units but the inability of low-income households to afford those that exist. For example, average overall annual vacancy rates have consistently exceeded 7 percent since 1986. In any event, if elderly and disabled people need more housing assistance, it could be provided less expensively through vouchers or certificates.

Opponents of the option argue that national statistics on the supply of rental units mask local shortages of certain types of units. In particular, many households with an elderly or disabled person need housing that can provide special social and physical services that are not generally available. People who support subsidized construction of units for low-income elderly and disabled households also maintain that the high cost of producing such units requires the certainty of a guaranteed stream of income that only project-based subsidies can provide.

600-03 Increase Payments by Tenants in Federally Assisted Housing

Savings
(Millions of dollars)
Budget
Authority Outlays

Relative to WODI

2001	330	170
2002	675	525
2003	1,055	905
2004	1,465	1,310
2005	1,820	1,740
2001-2005	5,345	4,655
2001-2010	15,825	15,330

Relative to WIDI

2001	330	170
2002	675	525
2003	1,055	905
2004	1,465	1,310
2005	1,820	1,740
2001-2005	5,345	4,655
2001-2010	15,825	15,330

SPENDING CATEGORY:

Discretionary

Most lower-income renters who receive federal rental assistance are aided through various Section 8 programs or the public housing program, all of which are administered by the Department of Housing and Urban Development (HUD). Those programs usually pay the difference between 30 percent of a household's income after certain adjustments and either the actual cost of the dwelling or a payment standard. In 1999, the average federal expenditure per assisted household for all of HUD's rental housing programs combined was roughly \$5,000. That amount includes both housing subsidies and fees paid to administering agencies.

This option would increase tenants' rent contributions over a five-year period from 30 percent to 35 percent of their adjusted income. Budgetary savings would total \$15.3 billion over the 2001-2010 period, including \$11.4 billion for Section 8 programs and \$4.0 billion for public housing. (Those estimates are based on the assumption that the Congress will provide budget authority to extend the life of all commitments for housing aid that are due to expire during the 2001-2010 period.) To diminish or eliminate the impact of this change on assisted tenants, state governments—which currently contribute no funds toward the federal rental assistance programs—could be encouraged to make up some or all of the decreased federal support.

One rationale for directly involving states in housing assistance is that those programs generate substantial local benefits, such as improved quality of the housing stock. If all states paid 5 percent of the adjusted income of those tenants receiving assistance, housing costs for assisted families would not rise. Moreover, since eligibility for housing aid is determined by each area's median income, tying states' contributions to renters' incomes would ensure that lower-income states would pay less per assisted family than would higher-income states. Finally, if a state chose not to participate and consequently rent payments by its households increased to 35 percent of adjusted income, those out-of-pocket costs would still be well below the nearly 50 percent of income paid by the typical unassisted renter who is eligible for assistance.

Because not all states might make up the reduction in federal assistance, housing costs could increase for some current recipients of aid, who generally have very low incomes. This option could also cause some higher-income renters in assisted housing projects to move to unassisted housing because it might now cost less to rent. As those tenants were replaced by new ones with lower income, the concentration of families with very low income in those projects would increase. In turn, the savings from this option could decrease somewhat.

600-04 Reduce Rent Subsidies to Certain One-Person Households

	Savings (Millions of dollars)	
	Budget Authority	Outlays
Relative to WODI		
2001	35	20
2002	70	55
2003	105	85
2004	135	120
2005	170	155
2001-2005	510	430
2001-2010	1,805	1,665
Relative to WIDI		
2001	35	20
2002	70	55
2003	105	85
2004	135	120
2005	170	155
2001-2005	510	430
2001-2010	1,805	1,665
SPENDING CATEGORY:		
Discretionary		

Generally, recipients of federal housing aid live in housing units that are specifically designated for use by federally assisted tenants, or they rent units of their own choosing in the private rental market. Support for that second type of aid comes in the form of Section 8 certificates and vouchers, which generally reduce what recipients spend for housing to 30 percent of their income. Starting in 2000, the certificate and voucher programs will be combined into one program that will pay the difference between 30 percent of a tenant's income and the lesser of the tenant's actual housing cost or a payment standard determined by local rental levels.

The payment standard and the amount of the federal subsidy both vary according to the type of unit in which the tenant resides. One-person households may generally reside in apartments with up to one bedroom, whereas larger households may reside in larger units. Linking the rent subsidy for a newly assisted one-person household (or a currently assisted household that moves to another housing unit) to the cost of an efficiency apartment rather than a one-bedroom apartment would save \$20 million in federal outlays in 2001 and nearly \$1.7 billion over the 2001-2010 period.

An argument in favor of this option is that an efficiency unit would provide adequate living space for a person who lived alone. An argument against the option is that individuals in some areas might have difficulty finding suitable housing under this new rule and as a result might have to spend more than 30 percent of their income to pay for available housing.

600-05 Stop Expansion of the Number of Rental Assistance Commitments

	Savings (Millions of dollars)	
	Budget Authority	Outlays
Relative to WODI		
2001	345	5
2002	700	180
2003	1,060	535
2004	1,425	895
2005	1,795	1,265
2001-2005	5,325	2,875
2001-2010	20,090	14,940
Relative to WIDI		
2001	355	5
2002	715	185
2003	1,095	540
2004	1,485	915
2005	1,885	1,295
2001-2005	5,535	2,940
2001-2010	21,470	15,630
SPENDING CATEGORY:		
Discretionary		
RELATED OPTION:		
370-11		

Each year between 1975 and 1995, and again in 1999 and 2000, the Congress expanded the stock of Section 8 certificates and vouchers to increase the number of low-income renters who receive housing aid. Those forms of housing assistance provide subsidies that allow recipients to live in private housing of their own choosing, provided the units meet certain standards. At the end of 1999, a total of about 1.6 million commitments for rental assistance were outstanding in both programs, at a total cost of about \$8.1 billion in that year. For 2000, the Congress authorized \$347 million to fund an additional 60,000 vouchers, and the Congressional Budget Office's baseline assumes that this amount of funding for new units will also be appropriated for each year in the future.

Stopping expansion of the number of rental assistance commitments would reduce federal outlays by \$14.9 billion over the 2001-2010 period. (That estimate is based on the additional assumption that the Congress will provide budget authority to extend the life of all vouchers and certificates that are due to expire over the 2001-2010 period.)

An argument in favor of this option is that expanding rental assistance programs is inappropriate in light of the cutbacks that have occurred in other areas of federal spending. Furthermore, existing commitments will continue to assist many new eligible households each year because of turnover among assisted renters. In addition, no current recipients would lose their housing assistance as a result of this option.

An argument against the option is that less than one-third of eligible renters actually receive housing assistance. If the number of commitments was frozen, the proportion of eligible renters receiving aid would fall because of continued growth in the number of eligible households. As a result, the number of eligible households with one or more housing problems—such as paying a relatively large share of income for rent or living in a physically inadequate or crowded dwelling—would probably increase.

600-06 Reduce Funding for Employment and Training in the Food Stamp Program

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2001	140	25
2002	85	35
2003	90	45
2004	90	50
2005	100	70
2001-2005	505	225
2001-2010	1,045	750

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

600-07

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) established a new work and training requirement for certain food stamp recipients. The act limited food stamp eligibility to a maximum of three months in any 36-month period for adults not engaged in work or job training who are able-bodied, are between the ages of 18 and 50, and have no dependent children. Under PRWORA, the requirement applies unless the Secretary of Agriculture waives it for a locale because of a high level of unemployment or insufficient job opportunities.

The Balanced Budget Act of 1997 (BBA) provided certain exemptions from the PRWORA work/training requirement as well as \$600 million to fund new work/training program slots. The Agricultural Research, Extension, and Education Reform Act of 1998 (P.L. 105-185) reduced work/training funds by \$100 million in 1999 and \$45 million in 2000.

This option would eliminate the remaining funds for work/training slots under the BBA. It would also provide additional savings in the Food Stamp program from not paying benefits to the people who would have occupied the canceled slots. In total, the Congressional Budget Office estimates that the option would reduce outlays by \$25 million in 2001 and about \$750 million for the 2001-2010 period.

An argument for eliminating the remaining work/training funds provided under the BBA is that states have not been using all of the funds allotted to them. States receive basic federal funding for employment and training of food stamp recipients under the Food Stamps Act of 1985, and those funds can be used for able-bodied adults without dependent children. People facing the work/training requirement under PRWORA can also apply to other programs that operate independently of the Food Stamp program. States with economically distressed areas, which might have fewer alternative work/training opportunities than more prosperous locales, can also apply for waivers from the PRWORA requirement.

An argument against this option is that the unspent funds are not necessarily evidence of a lack of need. States have had little time to develop the work/training programs that the BBA authorizes. Such programs must be targeted primarily at able-bodied adults without dependent children and may not simply substitute for state-funded programs. To ensure that BBA funds are spent on new work/training efforts, the act requires states to maintain their 1996 state spending levels for work/training programs in order to collect the BBA funds. Another argument for maintaining the funds available under the BBA is that they offer some flexibility because they do not have to be spent in a particular fiscal year. The funds may be carried over and reallocated by the Secretary of Agriculture among the states on the basis of year-to-year changes in the distribution of covered individuals.

600-07 Reduce the Exemptions from Employment and Training Requirements for Food Stamp Recipients

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2001	30	30
2002	30	30
2003	30	30
2004	30	30
2005	35	35
2001-2005	155	155
2001-2010	340	340
SPENDING CATEGORY:		
Mandatory		
RELATED OPTION:		
600-06		

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) is intended to encourage people to work or pursue job training. Thus, the act restricts food stamp eligibility to a maximum of three months in any 36-month period for able-bodied adults not engaged in work or training who are 18 to 50 years of age and have no dependent children—unless the Secretary of Agriculture has waived the work/training requirement for their locale. Under the Balanced Budget Act of 1997 (BBA), however, states may exempt from the requirement up to 15 percent of such able-bodied food stamp recipients.

This option would eliminate the 15 percent exemption to the PRWORA work/training requirement, which the Congressional Budget Office estimates would reduce outlays by \$30 million in 2001 and \$340 million for the 2001-2010 period.

The BBA exemption allows states to use different food stamp eligibility rules for different childless adults. Eliminating the exemption would require states to use the same eligibility criteria for all 18- to 50-year-old able-bodied people with no dependent children who live in a particular local area. An argument against this option is that the exemption provides a safety net for a needy population that can be difficult to serve.

600-08 Reduce the \$20 Unearned Income Exclusion Under the Supplemental Security Income Program

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2001	90	90
2002	120	120
2003	120	120
2004	125	125
2005	135	135
2001-2005	590	590
2001-2010	1,225	1,225
SPENDING CATEGORY:		
Mandatory		
RELATED OPTION:		
600-09		

The Supplemental Security Income (SSI) program provides federally funded monthly cash payments—based on uniform, nationwide eligibility rules—to low-income elderly and disabled people. In addition, most states provide supplemental payments. Because SSI is a means-tested program, recipients' outside income reduces their SSI benefits, subject to certain exclusions. For unearned income, most of which is Social Security, \$20 a month is excluded; benefits are reduced dollar for dollar for unearned income above that amount. The program allows a more liberal exclusion for earned income in order to maintain work incentives.

This option would reduce the monthly \$20 unearned income exclusion to \$15. The Congressional Budget Office estimates that the savings from that change would be \$90 million in 2001 and \$1.2 billion over the 2001-2010 period.

A program that ensures a minimum living standard for its recipients need not provide a higher standard for people who happen to have unearned income. Nevertheless, reducing the monthly \$20 exclusion by \$5 would decrease by as much as \$60 a year the incomes of the roughly 2.5 million low-income people (approximately 40 percent of all federal SSI recipients) who would benefit from the exclusion in 2001. Even with the full \$20 exclusion, the incomes of most SSI recipients fall below the poverty threshold.

600-09 Create a Sliding Scale for Children's SSI Benefits Based on the Number of Recipients in a Family

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2001	0	0
2002	55	55
2003	120	120
2004	130	130
2005	150	150
2001-2005	455	455
2001-2010	1,255	1,255
SPENDING CATEGORY:		
Mandatory		
RELATED OPTION:		
600-08		

The Supplemental Security Income (SSI) program provides cash payments—based on uniform, nationwide eligibility rules—to elderly and disabled people with low incomes. In addition, most states provide supplemental payments to SSI recipients. In 1999, children received approximately \$4.9 billion in federal SSI benefits, accounting for almost one-sixth of federal SSI benefits paid that year.

Unlike other means-tested benefits, the amount of the SSI benefit for an additional child does not decline as the number of SSI recipients in a family increases. In 2000, a family with one child qualifying for SSI benefits could receive up to \$512 a month, or \$6,144 a year, if the family's income (excluding SSI benefits) was under the cap for the maximum benefit. If the family had additional eligible children, it could receive an additional \$512 a month for each one. (A child's benefit is based only on the presence of a severe disability and the family's income and resources, not on the nature of the qualifying disability or on participation by other family members in the SSI program.)

This option would create a sliding scale for SSI disability benefits, so that a family would receive smaller benefits per child as the number of children receiving SSI increased. The sliding scale used for this option was recommended by the National Commission on Childhood Disability in 1995. It would keep the maximum benefit for one child as it is in current law but reduce additional benefits for additional recipient children in the same family. If that sliding scale was in place in 2000, the first child in a family qualifying for the maximum benefit would receive \$512, the second child would receive \$320 (38 percent less), and the third would receive \$273 (47 percent less). Benefits would continue to decrease for additional children. About 90 percent of child recipients would be unaffected by the new scale, and the remaining 10 percent would have their benefits reduced by about one-fourth, on average. As with current SSI benefits, the sliding scale would be adjusted each year to reflect changes in the consumer price index.

The Congressional Budget Office assumes that this option would not be implemented until 2002, because the Social Security Administration does not maintain data on multiple SSI recipients in a family and implementation of the sliding scale would therefore require significant effort. Savings from this option would total \$55 million in 2002 and \$1.26 billion over the 2002-2010 period.

Proponents of this option argue that the proposed reductions in benefits reflect economies of scale that generally affect the cost of living for families with more than one child. Proponents might also note that the high medical costs that disabled children often incur, which would not be subject to economies of scale, would continue to be covered because SSI participants generally are covered by Medicaid. Still, opponents could argue that children with disabilities sometimes have unique needs that may not be covered by Medicaid, including housing modifications and specialized equipment. With the proposed drop in benefits, some families might be unable to meet such needs.

600-10 **Reduce the Federal Matching Rate for Administrative Costs in the Child Support Enforcement Program**

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2001	980	980
2002	1,070	1,070
2003	1,160	1,160
2004	1,260	1,260
2005	1,350	1,350
2001-2005	5,820	5,820
2001-2010	14,070	14,070
SPENDING CATEGORY:		
Mandatory		

The Child Support Enforcement (CSE) program, enacted in 1975, assists states in their effort to improve the payment of child support by noncustodial parents. The federal government pays 66 percent of the program's administrative costs, provides incentive payments, and allows states to retain some of the money they collect.

This option would reduce the federal share of administrative costs from 66 percent to 50 percent. The Congressional Budget Office estimates that lowering the federal matching rate could save \$980 million in 2001 and \$14.1 billion through 2010.

Several arguments can be made for shifting greater responsibility for CSE administrative costs to the states. For one thing, it would encourage states to make their CSE efforts more efficient because states would be paying a larger share of the costs of any inefficiencies. Moreover, it would bring the federal share of CSE administrative costs more in line with the share of such costs that the federal government bears in comparable programs.

Lowering the matching rate would entail some risks, however. Because caseloads for child support workers are already high, states are not likely to be able to improve the program's efficiency enough to offset the reduction in federal payments. As a result, states might cut their CSE services, and child support collections might drop. A reduction in collections could also mean higher state costs for Temporary Assistance for Needy Families (TANF) because state collections of child support partly offset states' TANF benefit payments. States might respond to their greater share of the costs by reducing their benefits and services for needy families.

Under the Unfunded Mandates Reform Act of 1995, reductions in federal funding for certain entitlement grant programs—including the Child Support Enforcement program—are considered mandates on state governments if the states lack authority to amend their programmatic or financial responsibilities to offset the loss of funding. Because some states may not have sufficient flexibility within the CSE program to make such changes, this option could constitute an unfunded mandate on those jurisdictions under the law.

600-11 Reduce TANF Block Grants to States

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2001	819	75
2002	819	75
2003	814	110
2004	799	365
2005	769	775
2001-2005	4,020	1,400
2001-2010	7,820	6,125

SPENDING CATEGORY:

Mandatory

Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the federal government provides block grants to states for Temporary Assistance for Needy Families (TANF). The amounts of the block grants are based on spending levels for three programs that PRWORA repealed and TANF replaces: Aid to Families with Dependent Children (AFDC), Emergency Assistance for Needy Families, and the Job Opportunities and Basic Skills (JOBS) training program. To receive TANF funds, a state must spend from its own funds a predetermined "maintenance-of-effort" amount based on its pre-TANF spending. In addition, the state must maintain minimum work participation rates for recipient families, require parents and caretaker recipients to engage in work activities after receiving no more than 24 months of TANF benefits (with some exemptions), and impose a five-year limit on receipt of federally funded TANF benefits. Currently, the Congress has authorized \$16.5 billion annually for TANF through 2002.

This option would reduce the TANF block grants to states by 5 percent, which the Congressional Budget Office estimates would reduce budget authority by \$819 million and outlays by \$75 million in 2001. For 2001 to 2010, CBO estimates that this option would reduce budget authority by \$7.8 billion and outlays by \$6.1 billion.

Budget authority is projected to fall by less than the full 5 percent reduction in the TANF block grant because of the increase in spending for food stamps that would occur when TANF benefits were reduced. Outlays would initially fall by less than the reduction in budget authority because caseloads in the AFDC and TANF programs have declined significantly over the past six years and many states have been accumulating TANF budget authority from their current annual block grants. The cut in budget authority would result in lower outlays only after a state had depleted its stored budget authority.

An argument for reducing the TANF block grants is that most states need much less money for their programs than legislators expected when PRWORA was enacted. An argument against the cut is that it would reduce federal spending immediately in several states that have been exhausting their TANF block grants, which could cause those states to cut their TANF benefits and services. In addition, reducing federal funding could be viewed as an abrogation of a prior agreement between the federal and state governments and could make future agreements on block grants more difficult.

600-12 Reduce Funding for the Low Income Home Energy Assistance Program

Savings
(Millions of dollars)
Budget
Authority Outlays

Relative to WODI

2001	110	85
2002	110	110
2003	110	110
2004	110	110
2005	110	110

2001-2005	550	525
2001-2010	1,100	1,075

Relative to WIDI

2001	110	85
2002	125	120
2003	145	140
2004	165	160
2005	185	180

2001-2005	730	685
2001-2010	1,970	1,895

SPENDING CATEGORY:

Discretionary

The Low Income Home Energy Assistance Program (LIHEAP) helps some low-income households pay their home energy costs. Authorized by the Omnibus Budget Reconciliation Act of 1981 and distributed through block grants to the states, LIHEAP funding is \$1.1 billion in 2000. States may use the grants to help eligible households pay home heating or cooling bills, provide energy "crisis intervention" for those in immediate need, and fund low-cost weatherization projects. Additionally, the LIHEAP appropriation includes \$300 million for energy emergencies designated by the President.

Households may be eligible for the program if they receive assistance under certain means-tested programs or if their income is sufficiently low. Eligibility requirements are set by the states within federal guidelines. For example, the states may give preference to households with the highest energy costs (relative to income).

Cutting LIHEAP funding by 10 percent would save nearly \$1.1 billion in federal outlays during the 2001-2010 period. (To achieve savings in 2001, the funding reduction would have to be applied to funds that have already been appropriated.) One way of achieving that reduction in spending would be for states to forgo weatherization spending, which includes funds for new windows, doors, and furnaces that reduce future energy use. In 1996, states spent an average of just over 10 percent of their LIHEAP block grants for weatherization. Currently, states can spend up to 15 percent of their grant funds for weatherization, with the option of obtaining a waiver that allows expenditures of as much as 25 percent. Each year between 1995 and 1998, five states on average received that type of waiver.

An argument in favor of reducing LIHEAP funding is that the program was created in response to rapid increases in the price of home energy sources in the late 1970s and early 1980s. Even with their recent rise, however, real energy prices (adjusted for inflation) have decreased by almost 30 percent since 1981. In addition, the small number of waivers that states have obtained to increase weatherization spending supports the claim that most do not regard weatherization as a priority for LIHEAP funds. The federal government already provides similar assistance through the Department of Energy's (DOE's) Weatherization Assistance Program for low-income people, which has an appropriation of \$135 million in 2000 and serves about 70,000 households per year.

An argument against reducing LIHEAP funding is that spending for the program has already declined. In real terms, its 2000 appropriation is about half of its first appropriation. From 1981 to 1999, the percentage of eligible households receiving assistance dropped from 36 percent to 15 percent. Moreover, many communities have yearlong waiting lists for assistance from DOE's weatherization program, making it unlikely that the DOE program would be able to make up for LIHEAP's decreased coverage. In addition, it would be impossible for all of the states to limit cuts in funding to weatherization assistance. In 1996, six states did not fund any weatherization projects. To comply with this option, those six states and others that use less than 10 percent of their grant funds for weatherization would have to cut their basic LIHEAP spending.

600-13-A Defer Cost-of-Living Adjustments for CSRS Annuitants

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2001	355	355
2002	510	510
2003	430	430
2004	520	520
2005	665	665
2001-2005	2,480	2,480
2001-2010	8,305	8,305

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-13-B, 600-13-C, 600-14,
600-15-A, 600-15-B, and 600-16

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Federal civilian retirement programs cover about 2.7 million active employees and 2.4 million retirees and survivors. Federal civilian pension payments totaled \$44 billion in 1999. Civilian workers covered by the Civil Service Retirement System (CSRS), which covers most civilian employees hired before January 1, 1984, receive full cost-of-living-adjustments (COLAs). Civilian employees hired after that date receive less generous protection from inflation. Employees covered by the post-1983 civilian plan, the Federal Employees Retirement System (FERS), receive a so-called diet-COLA, generally 1 percentage point less than inflation. Moreover, COLAs are generally paid only to FERS retirees who are age 62 and older.

This option and options 600-13-B and 600-13-C illustrate three basic approaches to reducing the cost of COLAs: deferring adjustments for inflation, limiting the size of those adjustments, and reducing adjustments for middle- and high-income retirees. All three options would still give federal retirees better protection against inflation than private-sector pensions give to their retirees. However, as with any cut in benefits, those reductions could make recruitment and retention harder for federal civilian programs.

Deferring COLAs until age 62 for all nondisabled civilian employees who retired before that age would yield savings in direct spending of \$355 million in 2001, \$2.5 billion over five years, and \$8.3 billion over 10 years. Consistent with the military retirement system, this option allows a one-time catch-up adjustment at age 62, increasing pensions to the amount that would have been payable had full COLAs been in effect. Under the COLA-deferral approach, a CSRS-covered annuitant retiring at age 55 with an average annuity of \$25,000 in 2001 would lose \$17,000 over seven years.

Deferring COLAs would align COLA practices for CSRS with those under FERS and encourage federal employees to work longer. A major disadvantage of this option is that for current retirees or those nearing retirement, it could be regarded as a revocation of earned retirement benefits. In addition, although CSRS benefits are more generous than the total package of benefits typically offered by private employers, they fall short of those offered by many large private firms, which compete directly with the federal government in labor markets. Moreover, because CSRS benefits are already less generous than those available under FERS, this option would worsen the disparity between the government's civilian retirement plans.

600-13-B Limit Some COLAs for Federal Retirees

	Savings (Millions of dollars)	
	Budget	Outlays
	Authority	
2001	165	165
2002	385	385
2003	610	610
2004	845	845
2005	1,080	1,080
2001-2005	3,085	3,085
2001-2010	12,135	12,135

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-13-A, 600-13-C, 600-14,
600-15-A, 600-15-B, and 600-16

RELATED CBO PUBLICATION:

*Comparing Federal Employee
Benefits with Those in the Private
Sector* (Memorandum), August
1998.

Annuitants under the Civil Service Retirement System (CSRS) receive annual cost-of-living adjustments (COLAs) that offer 100 percent protection against inflation. Annuitants under the Federal Employees Retirement System (FERS) receive full protection only when the annual rate of inflation is less than 2 percent. If inflation in a year is between 2 percent and 3 percent, FERS annuitants receive COLAs of 2 percent. If inflation is over 3 percent, the adjustment is the increase in inflation less 1 percentage point.

This option would limit COLAs for CSRS annuitants to half a percentage point below inflation. Moreover, when inflation fell below 3 percent, FERS retirees would receive a COLA equaling the rate of inflation less a percentage point. The smaller one-half point reduction for CSRS retirees would produce a cut roughly comparable with the 1 percentage-point limit for FERS enrollees, who are also covered by Social Security.

Savings in direct spending for civilian pensions would amount to \$165 million in 2001, \$3.1 billion over five years, and \$12.1 billion over 10 years. Over five years, the average CSRS retiree would lose \$2,200. (Savings from this option would fall by \$460 million over five years if it was coupled with option 600-13-A, which would defer COLAs until age 62 for CSRS workers.) The Congress could also consider limiting COLAs only for the more generous FERS plan.

The main argument for this approach, as with the other COLA options, is that COLA protection under federal pension plans exceeds that offered by private pension plans. COLAs are becoming less prevalent in the private sector. According to a 1995 survey by the Bureau of Labor Statistics, less than 10 percent of private-sector annuitants received any inflation protection in the previous five years.

The main argument against cutting any retirement benefit is that such an action hurts both retirees and the government's ability to recruit a quality workforce. Advocates for federal workers argue that although certain provisions of federal retirement plans are generous, total compensation should be the basis of comparison between federal and private-sector employment. Annual surveys indicate that federal workers may be accepting salaries below private-sector rates for comparable jobs in exchange for better retirement provisions. In essence, workers pay for their more generous retirement benefits by accepting lower wages during their working years. This option, however, would hurt those retirees most dependent on their pensions. It would also renege on an understanding that workers covered under CSRS who passed up the chance to switch to FERS would retain their full protection against inflation. Finally, critics note that some protection from inflation for federal retirees has been restricted in the past. The General Accounting Office calculated that COLA delays and reductions during the 10-year period from 1985 through 1994 effectively reduced COLAs to about 80 percent of inflation.

600-13-C Reduce COLAs for Middle- and High-Income Federal Retirees

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2001	235	235
2002	560	560
2003	890	890
2004	1,225	1,225
2005	1,565	1,565
2001-2005	4,475	4,475
2001-2010	17,385	17,385

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-13-A, 600-13-B, 600-14,
600-15-A, 600-15-B, and 600-16

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Another alternative would tie reductions in the cost-of-living adjustment (COLA) to annuitants' benefit levels. For example, the full COLA could be awarded only on the first \$700 of a retiree's monthly benefit; a half COLA could be given on the remainder. The average pension for a civilian retiree was \$1,800 a month in 1999. The threshold of \$700 per month is about equal to the projected poverty level for an elderly person in 2000 and could be indexed to maintain its value over time. Similar proposals have been considered for Social Security.

This approach would save about \$235 million in direct spending for civilian pensions in 2001, \$4.5 billion over the 2001-2005 period, and \$17.4 billion over 10 years. The average retiree under the Civil Service Retirement System (CSRS) who was affected by the cut would lose \$2,460 over five years. Because the full COLA would be paid only to beneficiaries with small annuities, this option would better focus COLAs on retirees who had the greatest need for protection from inflation. Retirees receiving Federal Employees Retirement System (FERS) benefits already receive a reduced COLA, so this change would affect them less than those receiving CSRS benefits. As a result, the option would widen the existing gap between total benefits provided by FERS—including Social Security and the Thrift Savings Plan—and those provided by CSRS, leaving FERS even more generous relative to CSRS than it had been in the past.

The disadvantage of the option is that it would reduce the ability of the federal government to hire and retain middle- and upper-level managers and professionals. In addition, restricting COLAs would undercut a major strength of the federal retirement system—its ability to offer indexed pensions. Fully indexed benefits provide insurance against inflation, which generally is not offered in the private sector. Furthermore, many people object to any reductions in earned retirement benefits. They also point out that federal pensions are fully taxable under the individual income tax in the same proportion that they exceed the contributions that employees made during their working years. Moreover, pension benefit levels are not always reliable indicators of total income. As a result, unrestricted COLAs might be paid to recipients who had substantial income from other sources.

600-14 Modify the Salary Used to Set Federal Pensions

	Savings (Millions of dollars)	
	Budget	Outlays
Authority		
2001	20	20
2002	55	55
2003	95	95
2004	130	130
2005	170	170
2001-2005	470	470
2001-2010	1,815	1,815

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-13-A, 600-13-B, 600-13-C, 600-15-A, 600-15-B, and 600-16

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Both of the government's major civilian employee retirement plans, the Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS), provide initial benefits based on the average salary for an employee's three highest-earning years. If a four-year average was adopted for future retirees under FERS and CSRS, initial pensions would be about 1.5 percent to 2 percent smaller for most new civilian retirees. In 2001, total savings to the government in direct spending for civilian pensions would be \$20 million; savings would total \$470 million over five years and \$1.8 billion over 10 years.

This option would align federal practices more closely with those in the private sector, which commonly uses five-year averages. The change in figuring the base salary would encourage some employees to remain on the job longer in order to boost their pensions to reflect the higher salaries they receive with more years on the job. That incentive could help the government keep experienced people, but it would hinder efforts to reduce federal employment and promote younger hires.

The major drawback to the option is that it would cut benefits and consequently reduce the attractiveness of the government's civilian compensation packages.

Under this option, FERS benefits—including Social Security and the Thrift Savings Plan (TSP)—would remain more generous than those offered by large private firms, but CSRS benefits would fall below those received by many retirees in the private sector. The average new CSRS retiree would lose \$500 in 2001 and \$2,600 over five years, whereas the average new FERS retiree would lose \$150 in 2001 and just \$800 over five years because of the smaller defined benefit under that system. Retirees participating in FERS would continue to receive their full Social Security benefits and distributions from the TSP. In contrast, Social Security does not cover CSRS participants, and the government makes no contributions to TSP accounts established by CSRS participants.

600-15-A Restrict the Government's Matching Contributions to the Thrift Savings Plan

	Savings (Millions of dollars)	
	Budget	Outlays
Relative to WODI		
2001	665	665
2002	700	700
2003	730	730
2004	765	765
2005	805	805
2001-2005	3,665	3,665
2001-2010	8,220	8,220
Relative to WIDI		
2001	685	685
2002	750	750
2003	815	815
2004	885	885
2005	960	960
2001-2005	4,095	4,095
2001-2010	10,110	10,110
SPENDING CATEGORY:		
Discretionary		
RELATED OPTIONS:		
600-13-A, 600-13-B, 600-13-C, 600-14, 600-15-B, and 600-16		
RELATED CBO PUBLICATIONS:		
<i>Comparing Federal Employee Benefits with Those in the Private Sector</i> (Memorandum), August 1998.		
<i>Comparing Federal Salaries with Those in the Private Sector</i> (Memorandum), July 1997.		

The Thrift Savings Plan (TSP) for federal civilian employees is a defined contribution pension plan similar to the 401(k) plans that many private employers offer. Federal agencies automatically contribute to the TSP an amount equal to 1 percent of an individual's earnings on behalf of each of the 1.5 million workers covered by the Federal Employees Retirement System (FERS). In addition, the employing agency matches voluntary deposits by employees dollar for dollar on the first 3 percent of their pay and 50 cents for each dollar on the next 2 percent. The total federal contribution is 5 percent of pay for employees who also put aside 5 percent. Employees covered by the Civil Service Retirement System (CSRS), which covers most civilian federal employees hired before January 1, 1984, can contribute 5 percent of their pay to the TSP, but agencies contribute nothing on behalf of those employees.

If the government limited its matching contributions to a uniform rate of 50 percent on the first 5 percent of pay, its maximum contribution would fall to 3.5 percent of pay. Savings from that proposal would total \$665 million in 2001 and \$3.7 billion over five years relative to the 2000 funding level. Ten-year savings would reach \$8.2 billion. (The estimates exclude savings realized by the Postal Service because reductions in its operating costs eventually benefit only mail users.) Assuming that agencies continued the automatic 1 percent contribution, this arrangement would remain more generous than the defined contribution pension plans that are typically offered in the private sector.

Limiting the matching contributions would reduce the disparity between the government's two major retirement systems. Benefits under FERS are currently more generous than those under the older CSRS for most participants. Yet restricting the matching contributions would have several drawbacks. Middle- and upper-income employees rely on the government's contributions to maintain their standard of living during retirement because Social Security replaces a smaller fraction of their income than it does for lower-income employees. Part of the TSP's appeal derives from its individual accounts for each participant, which enjoy some protection from cuts imposed by subsequent changes in law. The security and portability of the TSP were major factors in the decision of many employees to switch from CSRS to FERS, because the TSP compensated for a less generous defined benefit plan. Changing the TSP's provisions would be unfair to that group, whose decision to switch plans reasonably assumed that changes would not be made. Opponents of restricting the matching rate also argue that doing so would diminish employees' savings for retirement, a problem that would be intensified if the cut reduced TSP participation. Research shows, however, that private-sector employees' contributions to their 401(k) plans tend to be responsive to the offer of employer matching contributions but not to the size of the match.

600-15-B Restructure the Government's Matching Contributions to the Thrift Savings Plan

	Savings (Millions of dollars)	
	Budget	Authority Outlays
Relative to WODI		
2001	310	310
2002	325	325
2003	340	340
2004	360	360
2005	375	375
2001-2005	1,710	1,710
2001-2010	3,835	3,835
Relative to WIDI		
2001	320	320
2002	350	350
2003	380	380
2004	415	415
2005	450	450
2001-2005	1,915	1,915
2001-2010	4,725	4,725
SPENDING CATEGORY:		
Discretionary		
RELATED OPTIONS:		
600-13-A, 600-13-B, 600-13-C, 600-14, 600-15-A, and 600-16		
RELATED CBO PUBLICATIONS:		
<i>Comparing Federal Employee Benefits with Those in the Private Sector</i> (Memorandum), August 1998.		
<i>Comparing Federal Salaries with Those in the Private Sector</i> (Memorandum), July 1997.		

Federal workers covered by the Federal Employees Retirement System (FERS) can contribute up to 10 percent of their salary into the Thrift Savings Plan (TSP), which is similar to a 401(k) plan. However, an employee can receive the highest contribution the government is willing to make to the TSP, an amount equal to 5 percent of the employee’s pay, by contributing only 5 percent of earnings. Restructuring the government’s contribution schedule so that the government would make the full 5 percent contribution only when employees contribute the 10 percent maximum amount would save \$310 million in 2001 and \$1.7 billion over five years. Ten-year savings would reach \$3.8 billion.

Currently, federal agencies automatically contribute an amount equal to 1 percent of salaries into the TSP for their FERS employees. In addition, employing agencies match the first 3 percent of voluntary employee contributions dollar for dollar and the next 2 percent at 50 cents on the dollar. (Employees covered by the Civil Service Retirement System (CSRS) are not eligible for either the automatic or the matching contributions but may contribute 5 percent of pay to the TSP.)

This option would spread the government’s total 5 percent contribution over the 10 percent maximum contribution for employees. It would do so by matching voluntary contributions ranging from 1 percent up to 6 percent at the rate of 50 cents per dollar (for a maximum 3 percent match), and those ranging from 7 to 10 percent at 25 cents per dollar (for a maximum 1 percent match). The government would continue to automatically contribute an amount equal to 1 percent of employee earnings.

Changing the government’s matching schedule would bring the government’s practices more in line with those of defined contribution plans in the private sector, which usually provide less generous matching contributions and no automatic contributions. According to the Bureau of Labor Statistics, the most prevalent practice among medium and large private firms is to match employee contributions up to 6 percent of pay at 50 cents on the dollar. Some federal employees, especially those currently contributing 5 percent of pay, would have an incentive to contribute more to the TSP and as a result would have more savings available to them when they retired. Further, restructuring matching contributions might reduce the disparity between the government’s two major retirement systems. Benefits under FERS are currently higher and cost the government more than those under the older CSRS for most participants.

This option has several drawbacks, however. First, a lower government match on smaller contributions may reduce the retirement resources for some employees by weakening their incentive to contribute. Second, the government may achieve its savings at the expense of employees who are least likely to contribute a higher percentage of earnings into the TSP—namely, young workers and others with relatively low earnings. Third, changing the TSP may be considered unfair because many people accepted employment with the government or switched from CSRS to FERS based on the assumption that TSP benefits would not change.

600-16 Increase Employee Contributions for Federal Pensions

	Savings (Millions of dollars)
2001	0
2002	0
2003	925
2004	1,125
2005	1,120
2001-2005	3,170
2001-2010	8,540
CATEGORY:	
Mandatory Spending and Revenues	
RELATED OPTIONS:	
600-13-A, 600-13-B, 600-13-C, 600-14, 600-15-A, and 600-15-B	
RELATED CBO PUBLICATIONS:	
<i>Comparing Federal Employee Benefits with Those in the Private Sector</i> (Memorandum), August 1998.	
<i>Comparing Federal Salaries with Those in the Private Sector</i> (Memorandum), July 1997.	

This option would permanently increase by 0.5 percent of pay the contributions that most federal civilian employees make to their retirement plan. Before 1999, most civilian workers covered by the Civil Service Retirement System (CSRS), the older of the two major civilian retirement plans, contributed 7 percent of their salary to their retirement fund. However, as CSRS-covered workers, they pay no Social Security taxes. Employees covered by the other major civilian plan, the Federal Employees Retirement System (FERS), generally contributed 0.8 percent of pay toward a defined benefit plan and paid 6.2 percent in Social Security taxes. The Balanced Budget Act of 1997 temporarily raises federal civilian employees' contributions to the retirement funds by 0.5 percent of pay; it also raises nonpostal agencies' contributions for CSRS participants by 1.5 percent of pay. The government began phasing in those increases in January 1999—employee contributions initially rose by 0.25 percent of pay. The increases are scheduled to expire after 2002. This option would make those higher employee and agency contributions for civilian pensions permanent.

Adopting this option for civilian employees would increase savings in mandatory programs by \$3.2 billion over five years and \$8.5 billion over 10 years. (The estimates assume that agencies' contributions for employees under FERS remain unchanged.)

Requiring employees to contribute to their retirement funds is one way to offset the generosity of federal civilian pension benefits relative to those in the private sector yet maintain a high level of salary replacement once people retire. On the downside, for most federal civilian employees, the option would be roughly equivalent to a 0.5 percent pay cut and would further diminish the federal government's compensation package relative to that of the private sector. (Private firms seldom require employees to contribute to pension plans.) Those factors would weaken the government's ability to attract new personnel. The government as a result might attract a less skilled workforce or be forced to raise cash compensation for its employees.